

City of Detroit

CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: December 3, 2007

RE: Contract No. 2649740-Strategic Financial Planning and Rate Consulting-The Foster Group (Contractor) for the Detroit Water And Sewerage Department (DWSD) **Recommend Approval, Line Item 23 on today's Public, Health & Safety Committee Calendar**

Attached are responses from DWSD on the Foster Group contract referenced above. The responses address questions raised by Councilwomen Alberta Tinsley-Talabi, JoAnn Watson and Sheila Cockrel and the Fiscal Analysis Division.

Contract Scope

The Foster Group through contract 2649740 provides strategic financial planning and rate consulting for the DWSD. More specifically, this contract provides assistance in the development of DWSD's operating and capital budgets, a detailed analytical review of DWSD's accounting records, all analyses necessary to compute and implement look-back adjustments, development of an alternative 10-year operating and capital financing plans for DWSD, allocation of the annual cost of providing utility service to individual customers and customer classes, a design of schedule of rates and charges that recover the total annual revenue requirements, and assistance in preparing all material necessary to implement the proposed water and sewer rates.

Contract Amount

Change order number 1 to the Foster Group contract 2649740 that is before your Honorable Body is for a total of \$2,255,000 over a 4-year period, starting on July 30, 2008. Annual cost range from \$539,000 to \$589,000 under this contract, with the annual cost going up by 3% each year starting in year 2.

Mayor Kilpatrick as Special Administrator of the Wastewater Treatment Plant approved the original Foster Group contract 2649740 on July 30, 2004. The

original contract totaled \$2,059,000 for a 4-year period, with annual cost ranging from \$492,000 to \$539,000 and increasing by 3% each year.

Rationale for Contractor

DWSD has employed rate consultants since the late 1970's to assist DWSD personnel with cost allocations and the preparation of rate schedules. Therefore, it appears the task performed by rate consultants could not migrate fully in-house.

Consulting firm Black and Veatch had served as the consultant to DWSD for strategic financial planning and rate design matters for over 20 years. From 1994 to 2004, Mr. Bart Foster served as the primary person responsible for providing financial management services on behalf of Black & Veatch. Mr. Foster also served as the representative for DWSD on the Southeast Michigan Consortium on Water Quality. Mr. Foster separated from Black & Veatch to form his own business The Foster Group.

Council should note the original contract for DWSD financial and rate design services was put out on bid in 2004, and the Foster Group was determined to be best suited to perform the specialized services required by the contract.

DWSD felt it important to retain the services of Mr. Foster as the Foster Group in order to continue the services he provided as an employee of Black & Veatch. Since the Foster Group contract has been in place, however, Black & Veatch has served as a subcontractor in the past for a specific task, and may be used in the future based on an as needed basis.

Even though the Foster Group is located in Leawood, Kansas, DWSD feels a local company does not have the knowledge base as the Foster Group. DWSD would like to continue to retain the services of the Foster Group under change order number 1 because of the contractor's knowledge in American Water Works Association and State of Michigan utility rules, as well as the impact of recent and long standing lawsuit settlements on DWSD's rate methodology, to perform the complex allocation of costs with the various customer classes. DWSD feels the Foster Group's experience and knowledge of DWSD's rate methodology has been a major influence on the selection of rate consultants.

The Foster Group does have a subcontractor relationship with Dutch Ventures, Ltd, a local company to assist in providing services under this contract, and other local companies could be solicited as the need arises.

The Other Foster Group Contract

Mayor Kilpatrick, as Special Administrator approved a one-year contract (CPO 2635431) for \$375,000 with Black & Veatch. This contract with Black & Veatch

was to assist DWSD to meet objectives established by the Suburban Partnering Groups and the Water Quality Consortium, and to assist the Water Quality Consortium to understand issues related to City/suburban rate structure, and involve utility financial planning to understand the true cost of providing these services. This contract was assigned to the Foster Group in 2004.

Again as Special Administrator, Mayor Kilpatrick approved a 3-year extension of this Foster Group contract (CPO 2675687) in 2004 for a not-to-exceed amount of \$1,125,000.

Subsequently, City Council approved the second change order 2648429 in April 2007 to extend this Foster Group contract by another 2 years and 9 months for a not-to-exceed amount of \$1,725,000. DWSD indicated that the services provided under this contract are much more involved than services performed under the annual financial planning and rate consulting contract (2649740) discussed above, since they include explorations of contracts with customer communities, technical issues related to water and sewer service in the region, and other issues raised by the partnering groups.

Therefore, the two Foster Group contracts are distinct in nature.

Recommendation

We feel City Council should approved change order number 1 to contract 2649740-The Foster Group in order for DWSD to continue to receive important strategic financial planning and rate consulting services from this company for the welfare of the department's rate structure and financial operations.

Attachments

cc: Auditor General's Office
Victor Mercado, DWSD Director
Roger Short, CFO
Pam Scales, Budget Director
Kandia Milton, Mayor's Office

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CITY OF DETROIT
WATER AND SEWER
OFFICE OF THE DIRECTOR

Public Health & Safety Standing Committee
Referred at Formal Session of: 11-28-07
In Committee on: 12-3-07
As: ☒ Line Item # 23 Discussion _____
Action Taken: _____

PUBLIC HEALTH
AND SAFETY
STANDING
COMMITTEE

735 RANDOLPH STREET
DETROIT, MICHIGAN 48226-2830

File

November 8, 2007

The Honorable
Detroit City Council
City of Detroit, Michigan

President Cockrel and City Council Members:

**RE: Contract Number 2649740 – Strategic Financial Planning and Rate Consulting –
The Foster Group, Leawood, Kansas**

In response to a request for information from Council Member Tinsley-Talabi, dated October 26th, DWSD submits the following.

Question No. 1: Has any attempts been made by the department to find a local company who could perform this service?

Response:

Due to the complexity of allocating costs associated with the various customer classes, a company must have knowledge of the American Water Works Association and State of Michigan utility rules, as well as the impact of recent and long standing lawsuit settlements on DWSD's rate methodology. The Foster Group's experience and knowledge of DWSD's rate methodology has been a major influence on the selection of rate consultants. The Foster Group has a subcontractor relationship with Dutch Ventures, Ltd, a local Detroit company to assist in providing services under this contract. Other local companies may also be called upon during the course of the contract, again pending the specific nature of required evaluations that emerge.

Question No. 2:

How is the Foster Group connected to Black and Veatch. Does this contractor have any responsibility for the Capital Improvement Program?

Response:

The Foster Group is not connected to Black & Veatch, although Black & Veatch has done some work under this contract as a subcontractor in the past and may be called upon in the future, depending on the specific nature of required investigations.

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This contract does contain a task for reviewing the Capital Improvement Program, but this task is primarily designed to assist the Department in coordinating individual projects in the program, designing financing plans for the program, preparing summary reports regarding the content of the program, and developing appropriate cost allocation techniques to be applied in the annual rate development process. The Foster Group does not have any responsibility for managing or implementing the Capital Improvement Program.

Question No. 3: When was this contract last bid? Since this four-year contract renewal was negotiated last May and doesn't go into effect until the end of this coming July, there seems there would be sufficient time.

Response: Solicitations for these services were sought in 2000, which resulted in DWSD Contract No. CS-1357, and again in 2004 for the current contract. In each case, the selected vendor was determined to be uniquely qualified to perform the specialized services required by the contract.

Question No. 4: Please explain the differences between this contract and Contract No. 2648429, which is also with The Foster Group, Task No. 7 entitled, "Implementation Assistance" in Contract No. 2649740, seems to replicate some of the tasks in Contract No. 2648429.

Response: Contract No. 2649740 is dedicated to providing annual financial planning and rate consulting assistance. The implementation assistance task is designed to cover preparation of material to implement recommended financial plans and rate schedules, including generation of reports, meetings with management and policy bodies, presentations at public hearings, and preparation for and participation in rate specific meetings with customer representatives. Contract No. 2648429 is dedicated to supporting DWSD's customer outreach program through active participation in the DWSD Technical Advisory Committee, DWSD Sewer Partnering effort, Southeast Michigan Consortium for Water Quality, and related initiatives. The services provided under this contract are much more involved than normal annual financial planning and rate consulting, and include explorations of contracts with customer communities, technical issues related to water and sewer service in the region, and other issues raised by the partnering groups. The activities under Contract No. 2649740 are required irrespective of the customer outreach program.

Question No. 5: Why was this contract amendment done so early?


Response: The amendment process was started early to provide adequate time for review by various City Agencies, such as Budget, Finance, Law and Purchasing. Also to obtain the necessary clearances required for execution of the amendment.

Question No. 6: Was this scope of work ever done by staff? How long has it been contracted out?

Response: DWSD has employed rate consultants since the late 1970's to assist with cost allocations and the preparation of rate schedules.

I hope this letter addresses your concerns. Should you require further assistance, please do not hesitate to contact my office.

Respectfully submitted,



Victor M. Mercado
Director

VMM/mld

Cc: Kandia Milton, Mayor's Office

CITY OF DETROIT
WATER AND SEWERAGE DEPARTMENT
OFFICE OF THE DIRECTOR

735 RANDOLPH STREET
DETROIT, MICHIGAN 48226-2830

October 2, 2007

The Honorable
Detroit City Council
City of Detroit, Michigan

President Cockrel and City Council Members:

Re: DWSD Contracts

In response to a request for information from Council Member Tinsley-Talabi, dated September 25th, DWSD submits the following.

Question No. 1: Contract No. 2649740 - The Foster Group. Please explain why a four-year extension is required?

Response:

Strategic financial planning and enhanced management of the Capital Improvement Programs are vital elements of the DWSD's efforts to implement the programs necessary to comply with the NPDES Permit. Contract No. CS-1424 provides the Department with resources to address those elements on a schedule consistent with the requirements. A time extension is needed to continue assisting DWSD in the development of operating budgets and capital Improvement programs; perform a detailed analytical review of DWSD's accounting records; conduct analyses to compute and implement Look-Back Adjustments; develop alternative 10-year operating and capital financing plans for the water and sewer utilities; allocate the annual cost of providing utility service to individual customers and customer classes; design schedules of water and sewer rates and charges that recover the total annual revenue requirements from utility; and assist DWSD in its preparation of all material necessary to implement the proposed water and sewer rates.

Question No. 2: Contract No. 2679757 - Water Meters. Please indicate when the DWSD team can make a presentation to the committee on this program.

Response:

A presentation can be made to the Committee on Monday, October 8th. If this date meets your approval, please confirm with my office.

MONDAY OCT 15 2007

KWAME M. KILPATRICK, MAYOR

HOLD 2649740
Auth per RTT
JW Requests more info
on 7/26/9740
Refer to RAD Fiscal
(more)

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MGW

President Cockrel and City Council Members
RE: Contract Nos. 2649740, 2679757, 2739530
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Question No. 3: Contract No. 2739530 - Schoolcraft Pumping Station. Please describe the issues or problems that will be corrected by the rehab of this pumping station.

Response: The Schoolcraft Pumping Station provides water service to the City of Livonia and to Joy Road Pumping Station. The existing station is about forty (40) years old. The high voltage electrical systems are obsolete and operate on an unusually high voltage for their size. The reservoir pump motors are of a design so that they are unable to deliver the intended pumping capacity that is needed for current loads. The variable speed drives for the line pumps are obsolete and from a company that is out of business, therefore making repair parts scarce and likely to become unavailable. The main switchgear is an outdoor design that has less life expectancy and maintainability, and has deteriorated from weathering. If DTE power is lost, some Detroit Water and Sewerage Department (DWSD) customers will be without adequate water service because the existing equipment is not suitable for use with generators.

I hope this letter addresses your concerns. Should you require further assistance, please do not hesitate to contact me.

Respectfully submitted,



Victor M. Mercado
Director

VMIM/DE/MD/RJ/ms

Cc: Kandia Milton, Mayor's Office